

Submission by the Federal Democratic Republic of Ethiopia on behalf of the Least Developed Countries Group on the Operationalization of Article 6, paragraph 4 of the Paris Agreement

22 March 2017

Ethiopia on behalf of the Least Developed Countries welcomes this opportunity to submit its view on elements to be addressed, including their operationalization, in the rule, modalities and procedures for the mechanism established by Article 6, paragraph 4 of the Paris Agreement, overarching issues, and relationships between Article 6, paragraphs 4-6, and other provisions of the Paris Agreement, the Convention and its related legal instruments, as relevant.

There are many lessons that can be learned from the operation of the Clean Development Mechanism (CDM) and Joint Implementation (JI) under the Kyoto Protocol. Many of the rules that apply under these mechanisms could be replicated under Article 6.4.

One of the greatest differences between the Kyoto Protocol accounting system and the mechanism for mitigation and sustainable development defined in Article 6.4 is the fact that all Parties have NDCs. Therefore a hybrid approach should be applied in the establishment of the sustainable development mechanism under Article 6.4. The hybrid refers to the application of similar rules to the CDM or JI depending on whether the project activity undertaken by a Party is carried out within or outside the sectors identified in its nationally determined contribution (NDC).

If the project activity is carried out in a sector outside the nationally determined contribution, similar rules to the Clean Development Mechanism should apply (for the purposes of this submission these could be called Sustainable Development Mechanism Outside (SDMO)).

If the project activity is carried out within a sector nominated under the NDC then similar rules for Joint Implementation should apply (for the purpose of this submission these could be called Sustainable Development Mechanism Inside (SDMI)). Such a hybrid arrangement would contribute towards avoiding double accounting.

The hybrid system would need to apply two sets of rules depending on whether or not the project activity is a SDMO or a SDMI.

As a starting point, there should be a common set of rules and principles that should apply to both SDMO and SDMI projects. It is the view of the Least Developed Countries that the establishment of both SDMO or SDMI activities under Article 6.4 must ensure that such activities are consistent with the objective of the Paris Agreement, in particular Article 2 (a) which states:

Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature

increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.

Furthermore to meeting this objective of the Paris Agreement and to meet the requirements of Article 6.4 subparagraphs a-d, Article 6.5 and Article 6.6, there are other requirements of both SDMO and SDMI activities that should be met. These include, but not limited to, the following elements, which are in no order of significance:

1. **Real and Measurable:** Any use of SDMO or SDMI must create real and measurable emissions reductions. Units cannot be created from nothing or from counterfactual baselines.
2. **Net reduction in emissions:** Any use of the SDMO or SDMI must result in a net reduction in emissions. Therefore, a discount on actual emission reduction units¹ from the SDMO or SDMI should be applied when demonstrating achievement of an NDC. One system of discounting could be to set a certain percentage of transferred units to be cancelled after the transaction.
3. **Centralized Oversight:** The SDMO and SDMI shall operate by centralized oversight. As such a SDMO/I centralized oversight mechanism should be established. The purpose of the centralized oversight mechanism would be to ensure that all project activities are based on a rigorous, robust and transparent common accounting framework. The centralized oversight mechanism shall be the overall approval authority for SDMO/I activities (see project cycle below). The centralized oversight mechanism would be operated by a Board with support from the Secretariat (called the SDM Board for the purposes of this submission).
4. **Project Cycle:** Any SDMO or SDMI activity must follow a standardised project cycle which would include: Development of project documentation, validator selection, validation contract, baseline and monitoring methodology check, SDM Board approval of methodologies, document review, public stakeholder consultation and comment process, validation report, central authority registration of project.
5. **Additionality:** Any SDMO or SDMI activity must be additional to actions that would have occurred in the absence of the Paris Agreement. The SDM Board may create a positive list of activities that have a high likelihood of additionality. Such projects would be the only ones eligible
6. **Ensuring Transparency:** All SDMO and SDMI transactions shall be maintained within national registries that are publicly accessible. Each Party shall establish a national designated authority to oversee all transactions to ensure environmental integrity and transparency of the system. Each Party shall establish a system that ensures local stakeholder consultations, including Indigenous Peoples, in a manner that protects the

¹ Each SDM unit shall be equal to one tonne of CO₂ equivalent

right to full and effective participation of affected peoples and communities for activities conducted under the SDM system. Transactions and decisions made by the SDM Board shall also be publicly accessible. Accounting systems, including the use of blockchain or other forms of distributed ledger technology must be open source and accessible to the public.

7. **Good Governance:** Each participating Party shall ensure that they have an effective system of governance in place to manage their use of SDMOs or SDMIs. Such system of governance should provide guarantees of best practice, transparency and accountability under legislation. Such standards of good governance shall aim to give assurance to those engaged in the SDM system that individual national systems meet the highest standard and quality.
8. **Limited Crediting Periods:** Crediting periods should be limited and subject to review so as to account for the working life of technologies and changes in additionality due to technological progress through time. Review should follow 5 year cycles based around the 5 year stocktake under Article 14 of the Paris Agreement.
9. **Raising Ambition:** SDMO or SDMI activities should promote actions that further economy and sectoral wide transformation or paradigm shift for truly long term mitigation benefits and to assist a Party in increasing its ambition.
10. **Contribute to Sustainable Development:** In order to make a significant contribution to sustainable development SDMOs and SDMIs should give preference to least developed countries and small island developing states by using standardized baselines taking local and national circumstances into account.
11. **Limiting Access to Ensure Environmental Integrity:** The SDM Board may establish list of types of projects that are eligible for SDMO or SDMI activities. Such list would select sectors that are quantifiable and easy to measure, provide lasting emission reductions, are beyond business as usual actions, and fulfil the necessary accounting system and rights requirements as defined in this submission.
12. **Avoidance of Double Counting:** To avoid double accounting all Parties that intend to transfer or acquire SDMOs or SDMIs must maintain a national registry of SD units. All transactions must be approved by the SD Board. All transactions would be recorded by the SD Board. Any SDM transaction must be only counted once. Therefore a traded unit must be recorded in both the national registries of the selling and acquiring Parties. The selling Party must record the transaction as a negative contributor to their nationally determined contribution if the unit is an SDMI.

13. **Progression Towards Low Carbon Economies:** The SDM system should help LDCs and SIDS work towards a paradigm shift towards de-carbonization and a low carbon economy. The SDM system should not lead to investments that would lock-in fossil fuel technologies.
14. **Avoidance of Fraudulent Trading:** All efforts must be made to eliminate fraudulent trading. Each Party that wishes to engage in SDM transactions shall have effective anti-fraud legislation and effective auditing procedures. The SDM Board would need to be assured that such national legislation is in place before it would be able to authorise any transactions of the respective Party. To assist in avoiding fraudulent and opaque transactions, secondary markets in SDM units would not be permitted. Any Party or the SDM Board may refer a matter to the compliance mechanism established under Article 15 if there are suspicions of fraudulent activity.
15. **Do Not Infringe Rights:** To be consistent with various preamble paragraphs of the Paris Agreement, any trading in SDM units shall ensure that such actions respect, promote and consider *inter alia*, obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity. Furthermore the use of the creation of any SDM unit shall ensure the integrity of all ecosystems.
16. **Capacity Building:** All efforts should be made to build the capacity of LDC and SIDS Parties so that they can effectively participate in the SDM system.
17. **Share of Proceeds:** All SDMO and SDMI transactions should be subject to a “share of proceeds” arrangement whereby a certain percentage of traded units would be reserved and paid into a centralised account maintained by the SDM Board to be used for funding adaptation activities. The centralized account would be a holding account for transfer to the Adaptation Fund, originally established under the Kyoto Protocol and through a decision authorised to operate under the Paris Agreement.
18. **Evaluation and Review:** As part of the global stocktake under Article 14 of the Paris Agreement a regular evaluation and review of the SDM system shall be undertaken and appropriate changes made. The SDM Board may also make recommendations for changes for consideration Parties to the Paris Agreement at any time.

In addition to common set of rules and principles, specific rules and principles should apply to SDMO and SDMI activities respectively. These include:

Particular Rules for Sustainable Development Mechanism Activities Outside the NDC (SDMOs)

1. A Party that has indicated an NDC based on a quantified target or non-quantifiable or relative targets such as relative to BAU or relative to GDP, or those that set a range target or peaking year is eligible to sell units from a SDMO activity. Only a Party with an NDC that is quantified and measured against an absolute reduction determined by a base year or base line shall be eligible to purchase units from a SMDO activity.

Particular Rules for Sustainable Development Mechanism Activities Inside the NDC (SDMIs)

1. **Quantified Emission Reductions:** Only emissions reductions from NDCs that are based quantified and measured against an absolute reduction determined by a base year or base line shall be eligible under the SDMI by both the selling and acquiring Party.

The Least Developed Countries give their full assurance to participate in discussions and negotiations under Article 6.4 in a constructive manner.